



FUEL STATION

OIL & GAS

Why Oil & Gas PSUs
merit a higher multiple?

February 20, 2024

SECTOR UPDATE

Oil & Gas

Why Oil & Gas PSUs merit a higher multiple?

A deeper probe into the PSU space have led us to a remarkable revelation. Oil & Gas stocks have consistently traded lower vis-à-vis their PSU counterparts despite a robust rally soaring on significant positives like higher dividends and stronger cash flows. Since Oil & Gas players exude discernible stability led by an ascendent profitability and reduced government intervention, they are low on risk and high on reward, and hence ripe candidates to achieve a higher multiple.

As the z score method unfolds an upside in valuation multiples, we have upgraded key stocks as follows: Oil India, GAIL, GSPL {ADD to BUY}; ONGC {NEUTRAL to BUY}; Petronet LNG {SELL to NEUTRAL} The only downgrade is MAHGL {ADD to NEUTRAL} following a sharp stock price rally.

Our top picks are BPCL, Oil India, HPCL, CPCL and ONGC.

Indian PSU stocks rally big in last 3-6 months

The strong rally across PSU stocks is the outcome of re-rating, given significant increase in government capex. Prime Minister Narendra Modi's pro-PSU endorsement has also helped in good measure.

Following a deeper probe, we observe that in the last decade, Oil & Gas is the only sector still close to +1std trading valuations which reveals vast potential for massive value creation. For the study, we considered top thirty-five PSUs across sectors - large market capitalization sectors like Electric/Power Utilities, Capital Goods, Railways, Metals and Mining, Banks, Transportation and Construction and engineering. All are trading above or at +2std which shows a re-rating already at play. However, the commensurate effect on Oil & Gas sector is yet to be reflected.

Oil & Gas PSUs: lucrative ventures with minimal government intervention

The rally in Indian Oil & Gas PSU is based on many favourable factors that have gotten even better: 1) Oil price in a range of ~USD74-84/bbl despite disruptions and OPEC+ cuts 2) No govt intervention on any policy impacting the sector at large, no fuel retail price cut announcements; 3) Higher global petroleum product demand given the shortage, which keeps cracks on the higher side, accentuated by the red sea impact; 4) Government focus on expansion and energy transition will help elevated capex Oil & Gas PSUs clock higher profitability and stronger cashflows; 5) Peak cycle profitability will likely expand multiples.

Notwithstanding the positives, a few risks remain: increase in crude prices, further narrowing of crude discounts (which now stands ~USD2/bbl), higher windfall taxes, a decrease in capping, falling product cracks and marketing margins, delay in execution of investment in expansions, and inefficient capital allocation.

Higher multiple to Indian O&G PSUs: Our rationale

We build our valuation base on a data-driven analysis of 35 PSUs across various industries, focused on the Oil & Gas sector as to its standing amongst the pack. We blend traditional valuation metrics (1-year Bloomberg consensus forward multiple) with standardized z-scores to identify potentially undervalued PSUs. Additionally, we include factors like higher government shareholding risk, return ratios, and earnings growth for a more holistic view. Our analysis reveals an impending buoyant trend: among the top ten-ranked PSUs based on our weighted average z-score methodology, six belong to the Oil & Gas sector within a consideration thirty-five. It's important to acknowledge that our approach prioritizes valuation metrics and financial performance, excluding assessments of potential liquidity and idiosyncratic concerns. This seamless alignment with the ongoing strong sectoral performance hints at the substantial potential upside that investments in these stocks are likely to fetch.

STOCK VIEW

Stock	Rating	TP (Rs)	Potential Return (%)
CPCL	BUY	1,498	58%
ONGC	BUY	402	46%
Oil India	BUY	821	43%
BPCL	BUY	900	37%
HPCL	BUY	760	34%
GAIL	BUY	236	30%
GSPL	BUY	487	29%
IGL	BUY	540	23%
IOCL	BUY	227	21%
Gujarat Gas	ADD	661	21%
MRPL	NEUTRAL	257	6%
Petronet LNG	NEUTRAL	286	3%
MGL	NEUTRAL	1,535	1%

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Exhibit 1: PSU stocks performance, despite strong rally Oil & Gas stocks can still do well

Company	Sector	CMP	Market Cap	Stock Performance (%)				
		Rs	(Rs. Bn)	1M	3M	6M	12M	3Y
ONGC	Oil & Gas	274.7	3,455.2	13.5	39.9	56.7	75.4	47.6
IOC	Oil & Gas	188.5	2,661.9	26.8	83.5	106.2	134.0	53.8
BPCL	Oil & Gas	652.6	1,415.5	35.7	67.2	84.9	96.7	24.3
GAIL	Oil & Gas	183.9	1,208.8	9.2	45.6	63.3	91.5	30.4
HPCL	Oil & Gas	554.7	786.9	19.1	78.9	112.4	137.0	38.7
Oil India	Oil & Gas	594.2	644.4	44.1	88.5	106.1	127.8	80.3
PLNG	Oil & Gas	282.8	424.1	16.0	44.2	33.6	34.0	9.1
GUJGAS	Oil & Gas	551.3	379.5	(0.4)	29.7	21.8	13.6	4.3
MRPL	Oil & Gas	286.1	501.4	61.6	142.8	233.6	429.8	97.0
GSPL	Oil & Gas	371.1	209.4	16.2	34.6	34.9	34.6	15.5
CPCL	Oil & Gas	990.1	147.4	11.1	57.9	179.2	301.1	122.7
NTPC	Electric Utilities	338.8	3,284.7	9.8	34.6	57.4	101.6	54.7
POWER GRID	Electric Utilities	276.4	2,570.2	17.4	31.9	52.9	72.3	37.6
NHPC	Electric Utilities	96.8	972.4	31.6	83.7	94.2	142.0	64.1
HAL	Capital goods	3,021.8	2,020.9	(0.2)	42.1	59.5	129.0	82.6
BEL	Capital goods	188.8	1,379.7	(1.6)	29.2	48.4	95.7	64.3
BHEL	Capital goods	225.7	785.9	1.6	59.1	130.3	211.7	78.1
Mazagon Dock	Capital goods	2,165.4	436.7	(6.3)	10.0	15.7	185.4	121.0
Cochin Shipyard	Capital goods	851.0	223.9	(2.6)	57.4	101.8	248.6	73.4
BEML	Capital goods	3,141.2	130.8	(1.6)	35.8	55.0	119.6	59.3
IRCTC	Railways	947.0	757.6	(3.7)	33.9	47.2	45.7	42.2
RVNL	Railways	266.3	555.1	(8.6)	59.6	116.7	289.0	114.5
RAILTEL	Railways	390.3	125.2	0.9	43.9	131.1	238.3	-
COAL INDIA	Metals & Mining	461.0	2,841.0	20.3	33.5	102.7	112.0	65.2
NMDC	Metals & Mining	246.3	721.8	16.8	45.8	113.7	103.2	53.5
SAIL	Metals & Mining	128.3	529.9	12.4	43.7	52.1	48.9	30.4
MIDHANI	Metals & Mining	413.6	77.5	(7.5)	11.3	6.0	98.0	31.8
CONCOR	Transportation	1,010.3	615.5	17.6	34.6	54.3	66.4	22.9
EIL	Construction & Engineering	231.0	129.8	(1.3)	62.8	51.1	203.0	52.0
SBI Bank	Banks	759.3	6,776.0	20.9	34.8	32.5	43.0	25.7
PNB	Banks	128.5	1,414.4	25.7	64.9	104.5	158.5	46.8
Bank of Baroda	Banks	270.7	1,399.9	17.4	37.6	41.2	62.3	46.5
Union Bank	Banks	141.2	1,046.3	3.9	29.9	49.4	99.1	56.0
Canara Bank	Banks	572.9	1,039.2	22.8	44.0	74.5	95.1	56.7
Indian Bank	Banks	543.2	731.7	22.5	25.9	33.4	88.2	60.9

Source: Bloomberg, YES Sec

Note: CMP as on February 19, 2024

Exhibit 2: PSU stocks 12-month fwd trading multiples, Oil & Gas still less expensive in the pack

Company	Sector	Multiple Methodology (x)	Current*	Average**	- 1 std	+ 1 std	+ 2 std
ONGC	Oil & Gas	EV/EBITDA	4.1	3.9	3.1	4.6	5.4
IOC	Oil & Gas	EV/EBITDA	7.2	6.4	5.7	7.1	7.8
BPCL	Oil & Gas	EV/EBITDA	7.3	8.0	6.8	9.2	10.3
GAIL	Oil & Gas	EV/EBITDA	10.4	7.6	6.3	8.9	10.2
HPCL	Oil & Gas	EV/EBITDA	7.6	7.2	6.0	8.4	9.6
Oil India	Oil & Gas	EV/EBITDA	6.0	4.9	3.5	6.4	7.8
PLNG	Oil & Gas	PER	11.9	13.5	10.9	16.0	18.6
GUJGAS	Oil & Gas	PER	28.1	21.1	17.4	24.7	28.4
MRPL	Oil & Gas	EV/EBITDA	8.8	5.2	3.6	6.9	8.6
GSPL	Oil & Gas	EV/EBITDA	13.5	8.2	6.5	9.9	11.6
CPCL	Oil & Gas	EV/EBITDA	5.9	5.7	4.3	7.2	8.7
NTPC	Electric Utilities	P/BV	2.0	1.1	0.9	1.4	1.6
POWER GRID	Electric Utilities	P/BV	2.8	1.7	1.4	1.9	2.2
NHPC	Electric Utilities	P/BV	2.3	0.9	0.6	1.1	1.3
HAL	Capital goods	EV/EBITDA	23.7	10.8	5.9	15.8	20.7
BEL	Capital goods	EV/EBITDA	23.7	12.9	8.7	17.0	21.2
BHEL	Capital goods	EV/EBITDA	49.8	13.7	6.5	20.8	28.0
Mazagon Dock	Capital goods	EV/EBITDA	23.8	14.9	3.7	26.0	37.1
Cochin Shipyard	Capital goods	EV/EBITDA	26.5	11.1	5.9	16.4	21.6
BEML	Capital goods	EV/EBITDA	18.0	18.1	12.6	23.6	29.2
IRCTC	Railways	EV/EBITDA	43.5	42.4	32.8	52.0	61.6
RVNL	Railways	EV/EBITDA	39.0	14.0	5.0	23.0	32.0
RAILTEL	Railways	EV/EBITDA	19.5	9.4	5.1	13.8	18.1
COAL INDIA	Metals & Mining	EV/EBITDA	6.8	5.7	3.5	7.9	10.2
NMDC	Metals & Mining	EV/EBITDA	7.4	5.2	4.0	6.4	7.5
SAIL	Metals & Mining	EV/EBITDA	7.0	6.2	3.3	9.1	12.0
MIDHANI	Metals & Mining	EV/EBITDA	24.6	15.3	9.5	21.0	26.7
CONCOR	Transportation	EV/EBITDA	23.5	16.5	14.1	19.0	21.4
EIL	Construction & Engineering	EV/EBITDA	21.1	16.8	12.4	21.2	25.6
SBI Bank	Banks	P/BV	1.7	1.1	0.9	1.3	1.6
PNB	Banks	P/BV	1.3	0.6	0.4	0.8	1.0
Bank of Baroda	Banks	P/BV	1.2	0.7	0.5	0.9	1.2
Union Bank	Banks	P/BV	1.1	0.5	0.3	0.6	0.8
Canara Bank	Banks	P/BV	1.2	0.6	0.4	0.7	0.9
Indian Bank	Banks	P/BV	1.1	0.6	0.4	0.8	1.1

Note: *Current trading multiple as on 16th Feb, 2024; **Average is of last 10-years; these multiples are Bloomberg Consensus 12-month fwd

Source: Bloomberg, YES Sec

Indian PSU stocks rally big in last 3-6 months

We have witnessed a strong rally across PSU stocks as the sectors got re-rated on the PSU theme. The surge in PSU stocks was fuelled by the government's significant increase in capital expenditure, with government-owned companies being the primary beneficiaries of this uptick.

Prime Minister Narendra Modi's endorsement of investing in PSU stocks during his Parliament speech six months ago (No-Confidence Motion in Aug'23) has triggered a strong PSU rally.

As per our understanding as also the study we carried out, Oil & Gas is the only sector which is still closer or marginally higher than +1std trading valuations when looked at last 10-year history, hinting at a discernible potential for immense value creation. For this analysis, we have considered PSUs across sectors - large market capitalization sectors like Electric/Power Utilities, Capital Goods, Railways, Metals and Mining, Banks, Transportation and Construction and engineering. All these sectors are trading above or at +2std which shows that re-rating has already taken place but the same is yet to reflect in the Oil & Gas sector.

Key PSU sectoral performance

Electrical Utilities

Electrical utilities have already surpassed +2std across all ratios in each of the company considered. The industry's current P/BV(x) stands at 2.3, significantly higher than +2std dev of 1.7. Similar trend is observed in EV/EBITDA(x) where current/+2std is at 11.7/10.7 and the risk/reward dynamic hence appears unfavourable.

Capital Goods

Majority stocks have surpassed +2std EV/EBITDA(x) except MAZDOCKS which is nearing +1std (has less trading history as it got listed in Jun'21) and BEML which is trading at average. The industry current/+2std EV/EBITDA(x) is at 27.6/26.3.

Railways

All stocks are trading above +2std EV/EBITDA(x), but IRCTC which trades around the average, indicates a potential upside up to +2std in a Bull scenario and +1std as per Base scenario. The industry current/+2std EV/EBITDA(x) is at 34.0/37.3. Based on risk/reward, the scenario seems favourable only in IRCTC (current/+2std at 43.5/61.6).

Metals & Mining

Stocks are trading between +1 and +2std EV/EBITDA(x) except Coal India which is trading at ~+0.5std and SAIL marginally above average, indicating a potential upside up to +2std in a Bull scenario and +1std in Base scenario. The industry current/+2std EV/EBITDA(x) is at 11.4/14.1. Based on this risk/reward, only Coal India (current/+2std at 6.8/10.2) and SAIL (current/+2std at 7.0/12.0) seem favourably placed.

Transportation, Construction and Engineering

Here only Container Corp (CCRI) and Engineer India (ENGR) were considered as they are trading above +2std and +1std EV/EBITDA(x) respectively which offers marginal reward for ENGR.

Banks

Majority stocks are trading above +2std P/BV(x) except for BOB and Indian Bank which are trading at par with their +2std which might be cheapest amongst the lot. If it were to catch up the industry pace exceeding +2std there could be some upside. The industry current/+2std P/BV(x) is at 1.3/1.1. Based on this risk/reward, only BOB and Indian Bank seems slightly favourably placed.

Oil & Gas companies enjoy higher profitability, no government intervention a blessing in disguise

- With crude price at ~USD83/bbl, upstream, downstream, and midstream have all been making good profits. An element of windfall taxes was introduced in Jul'22, when crude prices and refining cracks were higher. Upstream companies had net crude realization capped USD75-76/bbl which is still higher than what these companies made historically when crude prices were above USD80/bbl.
- On higher key product demand globally, both Diesel and ATF cracks crossed USD22/bbl and capped earnings of Indian refiners to protect the market. A discount on higher Russian crude imports further added to GRMs for these refiners, resulting in super-normal profitability.
- The benchmark Singapore GRM and the Indian refiners GRM are trending higher than their last 10-year averages, ably supported by stronger demand, reduced supply, and lower stocks. GRMs are way higher than the last 7-year average reported GRM of \$6.1 and the Singapore GRM of \$5.4. This scenario like how we witness today had not been sustained for a long time.
- There has been volatility in gross marketing margins for both Diesel and Petrol on crude and product price movements, as the RSP has been unchanged since last 21 months. This volatility is the prime reason for no price cuts in Diesel and Petrol. The government is sharpening focus on energy investments (towards enhancing India's energy resilience and supporting its growing demand.) With the refining capacity expected to cross 350-400mtpa from current 252mtpa, the nation's status of forth largest refiner globally is being reinforced with resounding conviction as a 2030 target. The high demand for oil and gas and a supportive government policy will steer OMC growth in coming years.
- Post the pandemic era, the refining cracks have remained firm and resulted in better earnings, FY24 is expected to be a peak profitability year for Indian refiners and OMCs. Our assumptions for FY25 and FY26 expect profitability of these companies to be higher than historical levels, barring FY24.
- OMCs are entering a phase of higher capex into expansions and new energy transition which would require better visibility of earnings, it is visible too to some extent, but not without a few challenges and disruption risks.
- To sum up, Indian Oil & Gas PSUs are relishing a rally based on key factors that have changed for the better and strongly worked in their favour – 1) Oil price in a range of ~USD74-83/bbl despite disruptions and cuts by OPEC+; 2) No intervention by government on any policy impacting the sector at large; no announcement of a cut in fuel retail price; 3) Higher petroleum product demand and shortage globally which has kept cracks on higher side, with further support from the red sea impact; 4) Strengthened government focus on expansion and energy transition; elevated capex Indian Oil & Gas PSUs would surely be allowed to clock higher profitability and stronger cashflows; 5) Peak cycle profitability is likely to expand multiples. Having said that, a few risks remain: increase in crude prices, further narrowing of crude discounts which now stands ~USD2/bbl, higher windfall taxes, decrease in capping, falling product cracks and marketing margins, delay in execution of investment in expansions, and inefficient capital allocation.

Exhibit 3: Oil & Gas trading near average to +1std band

Company	PER (x)					EV/EBITDA (x)					P/BV (x)				
	Current	Avg.	- 1 std	+ 1 std	+ 2 std	Current	Avg.	- 1 std	+ 1 std	+ 2 std	Current	Avg.	- 1 std	+ 1 std	+ 2 std
ONGC	7.1	7.2	4.9	9.5	11.9	4.1	3.9	3.1	4.6	5.4	1.0	0.9	0.5	1.2	1.5
IOCL	9.2	7.8	5.9	9.6	11.5	7.2	6.4	5.7	7.1	7.8	1.4	1.1	0.8	1.4	1.8
BPCL	10.0	10.0	7.8	12.2	14.4	7.3	8.0	6.8	9.2	10.3	1.8	1.9	1.4	2.3	2.8
GAIL	11.7	10.5	7.6	13.5	16.4	10.4	7.6	6.3	8.9	10.2	1.6	1.3	1.0	1.6	1.9
HPCL	7.7	7.3	5.2	9.4	11.5	7.6	7.2	6.0	8.4	9.6	1.6	1.3	0.8	1.7	2.2
Oil India	8.4	6.7	4.5	8.8	10.9	6.0	4.9	3.5	6.4	7.8	1.3	0.8	0.5	1.1	1.4
Petronet LNG	11.9	13.5	10.9	16.0	18.6	6.7	7.6	5.9	9.4	11.1	2.3	2.7	2.1	3.2	3.7
Gujarat Gas	28.1	21.1	17.4	24.7	28.4	16.5	13.2	10.4	16.0	18.8	4.3	4.5	3.3	5.6	6.7
MRPL	15.0	7.9	5.5	10.2	12.6	8.8	5.2	3.6	6.9	8.6	2.8	1.3	0.9	1.7	2.1
Gujarat State Petronet	18.7	14.1	11.7	16.5	18.9	13.5	8.2	6.5	9.9	11.6	2.0	1.7	1.4	2.0	2.2
CPCL	7.2	4.7	3.3	6.2	7.6	5.9	5.7	4.3	7.2	8.7	1.4	0.9	0.5	1.2	1.5
Sector Average	12.3	10.1	7.7	12.4	14.8	8.5	7.1	5.6	8.5	10.0	1.9	1.6	1.2	2.1	2.5

Note: *Current trading multiple as on February 16, 2024; **Average is of last 10-years

Source: Bloomberg, YES Sec

Why Indian PSUs merit a higher multiple

We form our valuation basis on a data-driven analysis of 35 PSUs across various industries and focused on the Oil & Gas sector to know where it stands today amongst the pack. We employ a comprehensive approach combining traditional valuation metrics (1-year Bloomberg consensus forward multiple as per the industry) with standardized z-scores to identify potentially undervalued PSUs. Further, we incorporate factors like higher government shareholding risk, return ratios, and earnings growth to make way for a more holistic view.

This alignment with the sector's current strong performance suggests strong potential upside that these specific players are likely to offer investors.

Ranking based on Z score analysis

Z-score indicates how much a given value differs from the standard deviation. We rank them based on weighted average and equal weighted scores. For weighted average, we assign a 50% weight to valuation metrics (1-year Bloomberg consensus forward multiple as per the industry), 20% weight to government shareholding risk as a promoter, 20% to return ratios, and rest to earnings growth for a more holistic view.

Our analysis reveals an impending buoyant trend: among the top ten-ranked PSUs based on our weighted average z-score methodology, six belong to the Oil & Gas sector within a consideration of thirty-five. The top-3 are below averages, while top 4th to 14th are below 1 standard deviation with the median of this pack being at 2.2 standard deviation.

Exhibit 4: Oil & Gas tops the ranking based on the Z score

Company	Sector	Weighted Average	Equal Weighted
BPCL	Oil & Gas	1	2
PLNG	Oil & Gas	2	1
HPCL	Oil & Gas	3	4
CPCL	Oil & Gas	4	3
NMDC	Metals & Mining	5	5
Oil India	Oil & Gas	6	7
COAL INDIA	Metals & Mining	7	8

Company	Sector	Weighted Average	Equal Weighted
IRCTC	Railways	8	6
ONGC	Oil & Gas	9	10
BEML	Capital goods	10	9
SAIL	Metals & Mining	11	15
Mazagon Dock	Capital goods	12	12
IOC	Oil & Gas	13	14
MRPL	Oil & Gas	14	11
EIL	Construction & Engineering	15	16
GUJGAS	Oil & Gas	16	13
Bank of Baroda	Banks	17	19
GAIL	Oil & Gas	18	21
BEL	Capital goods	19	20
HAL	Capital goods	20	17
SBI Bank	Banks	21	18
MIDHANI	Metals & Mining	22	24
Indian Bank	Banks	23	23
CONCOR	Transportation	24	25
GSPL	Oil & Gas	25	22
RVNL	Railways	26	26
RAILTEL	Railways	27	27
NTPC	Electric Utilities	28	28
Cochin Shipyard	Capital goods	29	30
Canara Bank	Banks	30	29
PNB	Banks	31	33
Union Bank	Banks	32	32
POWER GRID	Electric Utilities	33	31
BHEL	Capital goods	34	34
NHPC	Electric Utilities	35	35

Source: Bloomberg, YES Sec

Oil & Gas stocks case scenarios

We have developed 3 case scenarios based on our analysis, wherein, historical average multiple is assumed to be the bear case, median of the z score to be the base case, and 75th percentile of the z score to be the bull case.

The median multiple (x) of z scores of this PSU pack is 2.2 while the 75th percentile is at 3.1 which is the blue-sky scenario.

We arrive at individual median multiple by adding the respective average to the product of their standard deviation and the median of the pack, likewise for 75th percentile.

Exhibit 5: Case scenarios based on our analysis

Company	Multiples (x)			Target Price (Rs/shr)			% Upside		
	Bear Case	Base Case	Bull Case	Bear Case	Base Case	Bull Case	Bear Case	Base Case	Bull Case
ONGC	4.5	5.5	6.2	402	467	510	46%	70%	86%
IOCL	6.8	8.0	8.6	182	223	245	-2%	19%	31%
BPCL	7.3	10.6	11.6	717	1,045	1,150	9%	60%	76%
GAIL	7.2	10.4	11.6	172	245	271	-5%	35%	49%
HPCL	4.2	9.9	11.0	370	1,192	1,353	-35%	111%	139%
Oil India	6.2	8.1	9.5	981	1,202	1,356	71%	109%	136%
Petronet LNG	12.3	19.1	21.5	282	438	492	1%	58%	77%
Gujarat Gas	24.8	28.7	31.9	682	790	878	25%	45%	61%
MRPL	7.0	9.1	11.1	153	212	267	-37%	-12%	11%
Gujarat State Petronet	8.0	9.3	10.9	511	549	595	35%	45%	57%
CPCL	5.6	9.0	10.3	1,133	1,814	2,088	19%	91%	120%

Source: YES Sec

The target multiples in all three scenarios look discernibly optimistic with upstream being the torch bearer to generate a substantial upside even in the bear case. In terms of magnitude of returns, both in the base and bull case, HPCL leads the pack followed by Oil India bearing ample potential to more than double the current market price. BPCL, CPCL and the Gujarat duo show significant upside in a positive scenario along with a stable upside in the worst case. Despite being the leader in happy times, HPCL faces the highest downside risk in the bear case preceded by MRPL.

Considering the odds in the given scenarios, Oil India turns out to be the most optimal bet having potential to give a robust upside, regardless of the case. These expectations are built on the assumptions that the historical heights of multiples are scaled again, considering the optimistic outlook and sustained industry momentum in the industry.

Our sectoral top picks

As the z score method unfolds an upside in valuation multiples, we have upgraded key stocks as follows: Oil India, GAIL, GSPL {ADD to BUY}; ONGC {NEUTRAL to BUY}; Petronet LNG {SELL to NEUTRAL} The only downgrade is MAHGL {ADD to NEUTRAL} following a sharp stock price rally.

Our top picks are BPCL, Oil India, HPCL, CPCL and ONGC.

Exhibit 6: Valuation table for Oil & Gas sector

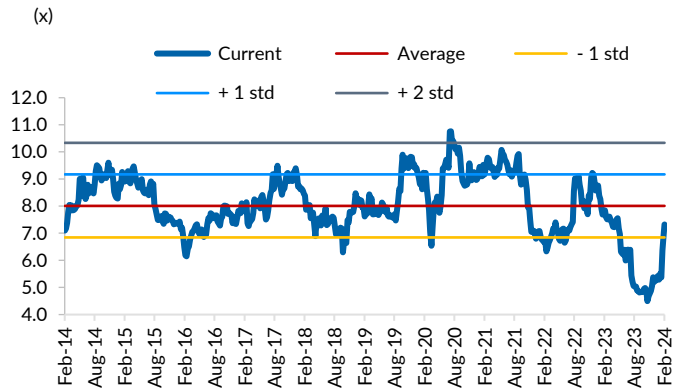
Company	Multiple Methodology	Multiple (x)	Rating	CMP	Target Price (Rs/shr)	% Upside	Earlier		PER (x)		EV/EBITDA (x)	
							Rating	TP (Rs/shr)	FY25e	FY26e	FY25e	FY26e
ONGC	EV/EBITDA	4.5	BUY	275	402	46%	NEUTRAL	282	9.0	9.0	3.9	3.7
IOCL	EV/EBITDA	8.1	BUY	187	227	21%	BUY	155	10.3	12.4	7.5	8.2
BPCL	EV/EBITDA	9.1	BUY	655	900	37%	BUY	620	11.5	13.8	7.4	8.1
GAIL	EV/EBITDA	10.0	BUY	182	236	30%	ADD	177	14.5	13.5	10.7	9.8
HPCL	EV/EBITDA	6.9	BUY	566	760	34%	BUY	574	7.7	8.5	7.1	6.9
Oil India	EV/EBITDA	4.8	BUY	574	821	43%	ADD	563	10.1	11.4	6.8	7.0
Petronet LNG	PER	12.5	NEUTRAL	278	286	3%	SELL	229	12.7	12.1	6.9	6.4
Gujarat Gas	PER	24.0	ADD	545	661	21%	ADD	660	22.4	19.8	13.6	11.8
MRPL	EV/EBITDA	10.7	NEUTRAL	241	257	6%	NEUTRAL	173	18.1	24.4	10.1	11.7
Gujarat State Petronet	EV/EBITDA	7.2	BUY	378	487	29%	ADD	387	19.0	17.3	12.9	11.3
CPCL	EV/EBITDA	7.4	BUY	951	1,498	58%	BUY	1030	6.5	8.6	4.3	4.9
Mahanagar Gas Ltd	PER	13.5	NEUTRAL	1,518	1,535	1%	ADD	1365	14.2	13.3	8.4	7.7
Indraprastha Gas Ltd	PER	17.0	BUY	440	540	23%	BUY	540	17.0	15.7	10.8	9.9

Exhibit 7: Revision in numbers

Company	Old				New				% Change			
	EBITDA (Rs bn)		PAT (Rs bn)		EBITDA (Rs bn)		PAT (Rs bn)		EBITDA		PAT	
	FY25e	FY26e	FY25e	FY26e	FY25e	FY26e	FY25e	FY26e	FY25e	FY26e	FY25e	FY26e
ONGC	767.3	779.4	385.2	384.9	767.3	779.4	385.2	384.9	-	-	-	-
IOCL	492.4	443.6	256.2	212.6	504.5	468.5	265.3	231.2	2	6	4	9
BPCL	226.5	206.2	120.8	100.5	229.1	210.2	122.7	103.5	1	2	2	3
GAIL	131.7	143.8	85.4	92.3	137.2	149.1	89.5	96.3	4	4	5	4
HPCL	197.8	199.3	92.3	85.6	201.3	205.1	93.9	89.6	2	3	2	5
Oil India	100.4	102.4	64.0	64.2	117.2	124.3	74.8	78.8	17	21	17	23
Petronet LNG	49.5	51.8	32.8	34.3	49.5	51.8	32.8	34.3	-	-	-	-
Gujarat Gas	26.5	30.1	16.6	18.9	26.5	30.1	16.6	18.9	-	-	-	-
MRPL	51.9	42.7	23.5	17.3	57.9	49.1	27.5	21.6	12	15	17	25
Gujarat State Petronet	15.0	16.6	11.2	12.3	15.0	16.6	11.2	12.3	-	-	-	-
CPCL	36.8	30.2	21.7	16.4	36.8	30.2	21.7	16.4	-	-	-	-
Mahanagar Gas Ltd	15.5	16.6	10.5	11.2	15.5	16.6	10.5	11.2	-	-	-	-
Indraprastha Gas Ltd	25.1	27.0	18.1	19.6	25.1	27.0	18.1	19.6	-	-	-	-

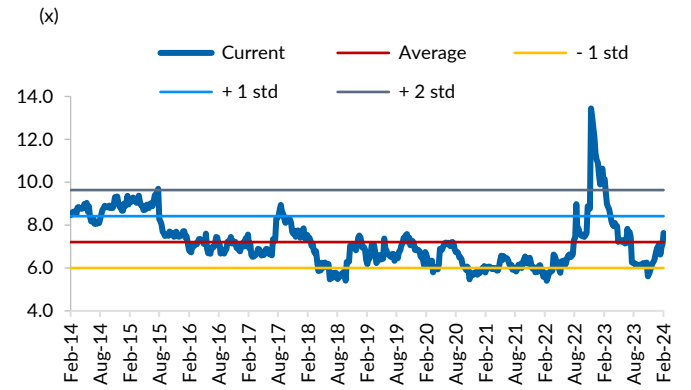
12-month FWD Trading multiples (Bloomberg Consensus) of Oil & Gas stocks

Exhibit 8: BPCL EV/EBITDA



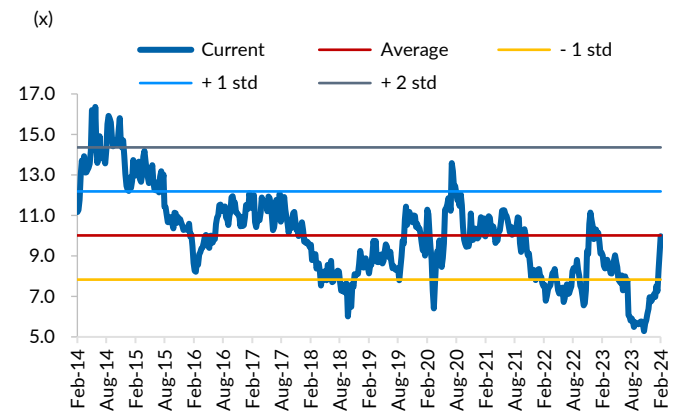
Source: Bloomberg, YES Sec

Exhibit 9: HPCL EV/EBITDA



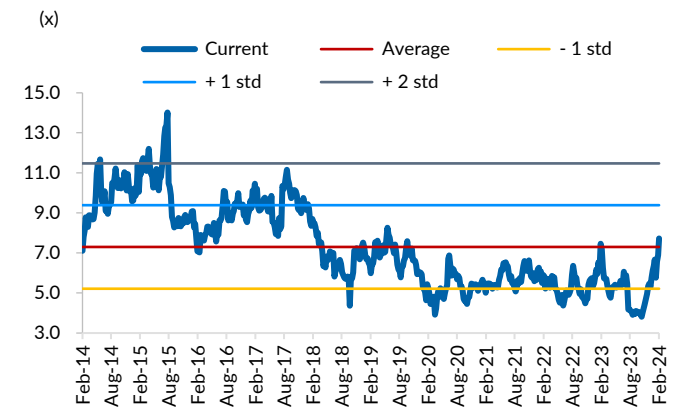
Source: Bloomberg, YES Sec

Exhibit 10: BPCL PER



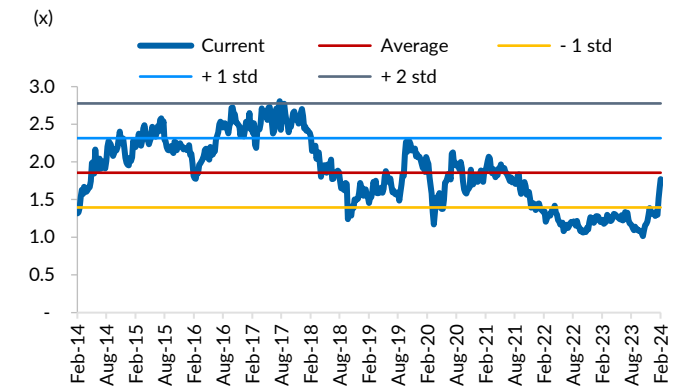
Source: Bloomberg, YES Sec

Exhibit 11: HPCL PER



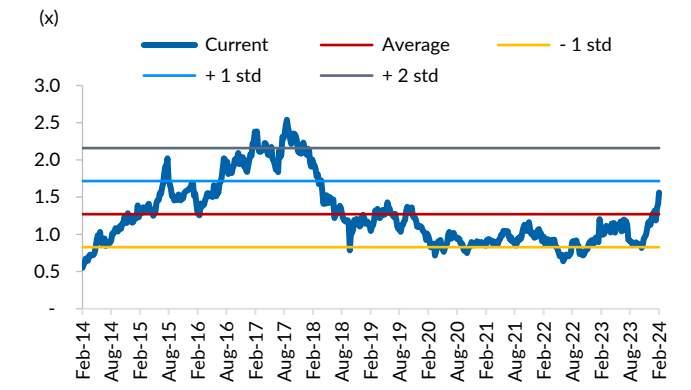
Source: Bloomberg, YES Sec

Exhibit 12: BPCL P/BV



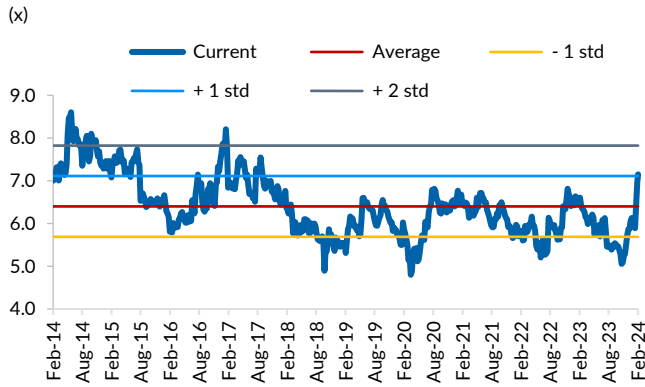
Source: Bloomberg, YES Sec

Exhibit 13: HPCL P/BV



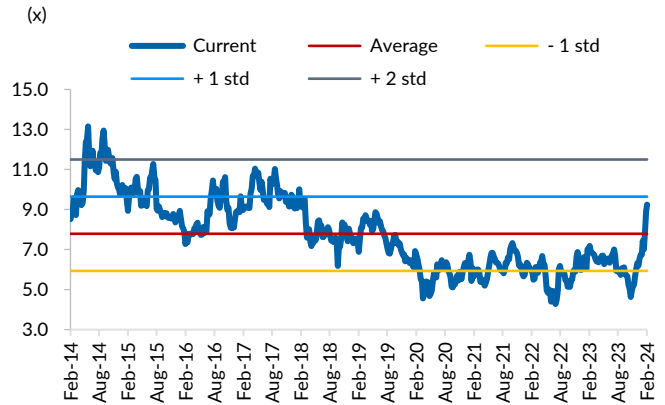
Source: Bloomberg, YES Sec

Exhibit 14: IOCL EV/EBITDA



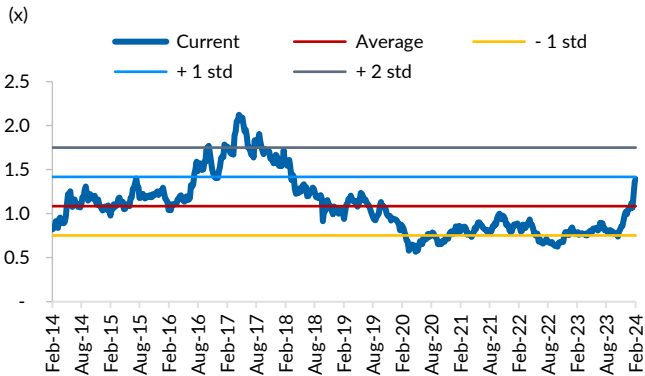
Source: Bloomberg, YES Sec

Exhibit 15: IOCL PER



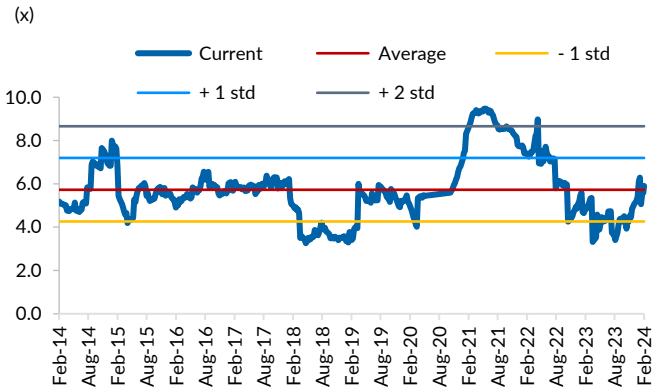
Source: Bloomberg, YES Sec

Exhibit 16: IOCL P/BV



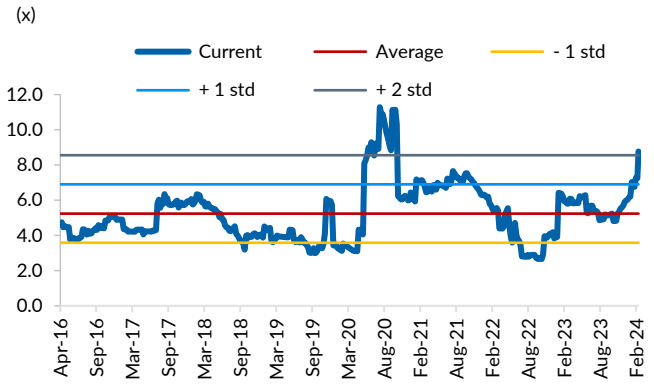
Source: Bloomberg, YES Sec

Exhibit 17: CPCL EV/EBITDA



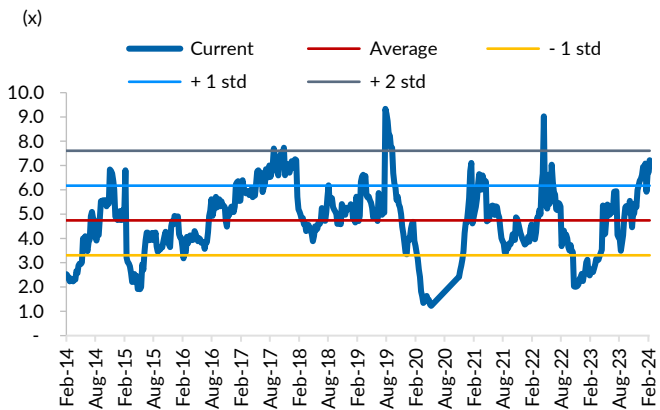
Source: Bloomberg, YES Sec

Exhibit 18: MRPL EV/EBITDA



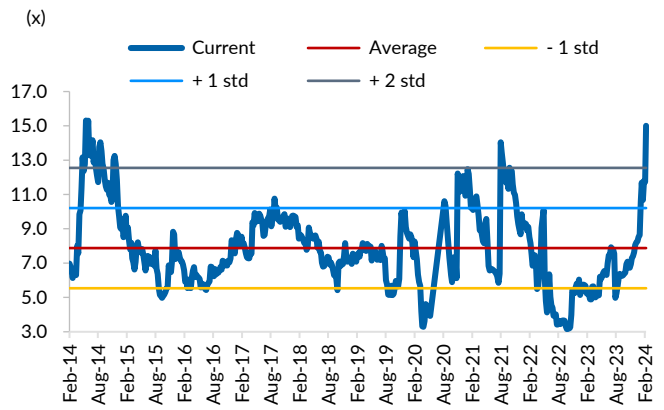
Source: Bloomberg, YES Sec

Exhibit 19: CPCL PER



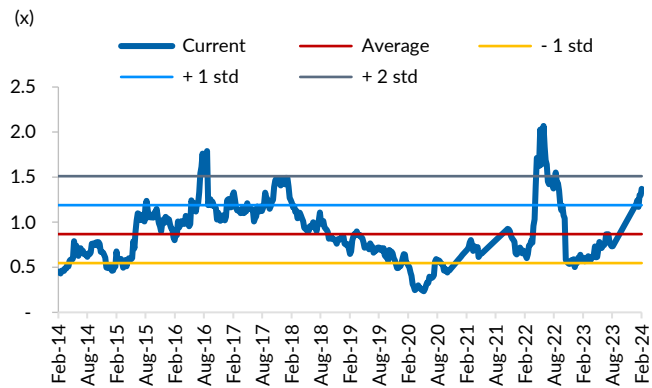
Source: Bloomberg, YES Sec

Exhibit 20: MRPL PER



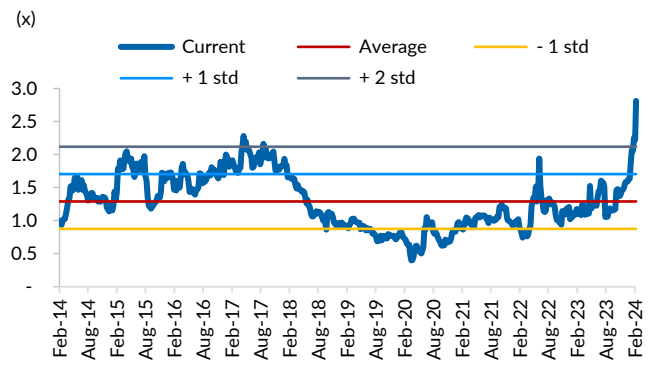
Source: Bloomberg, YES Sec

Exhibit 21: CPCL P/BV



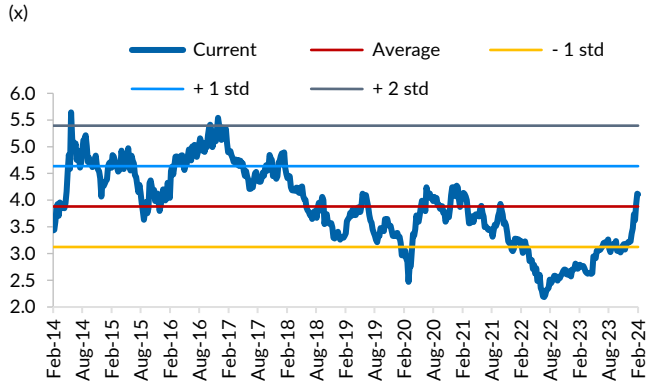
Source: Bloomberg, YES Sec

Exhibit 22: MRPL P/BV



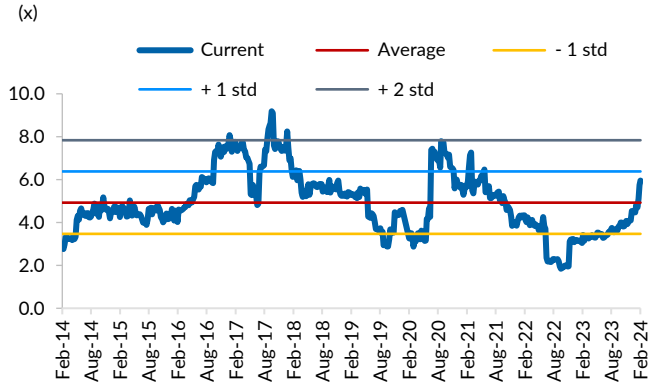
Source: Bloomberg, YES Sec

Exhibit 23: ONGC EV/EBITDA



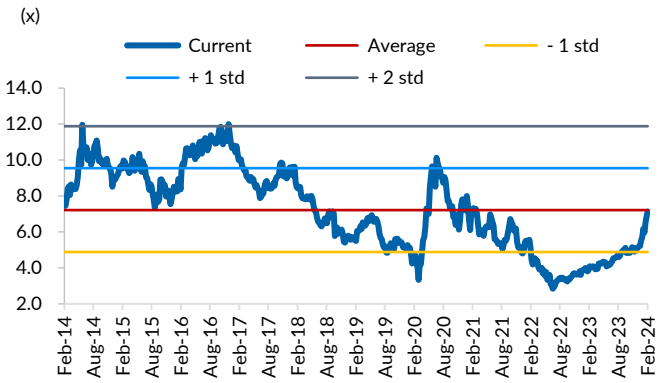
Source: Bloomberg, YES Sec

Exhibit 24: Oil India EV/EBITDA



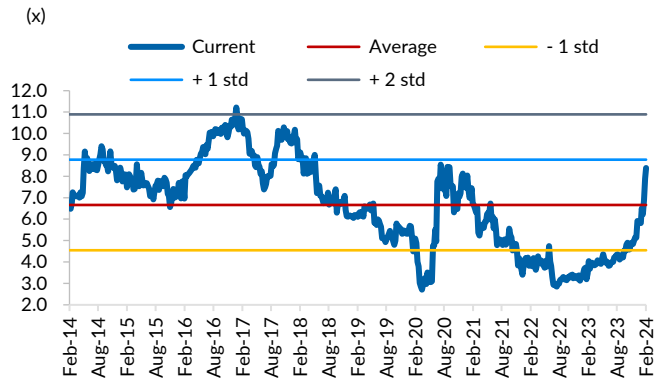
Source: Bloomberg, YES Sec

Exhibit 25: ONGC PER



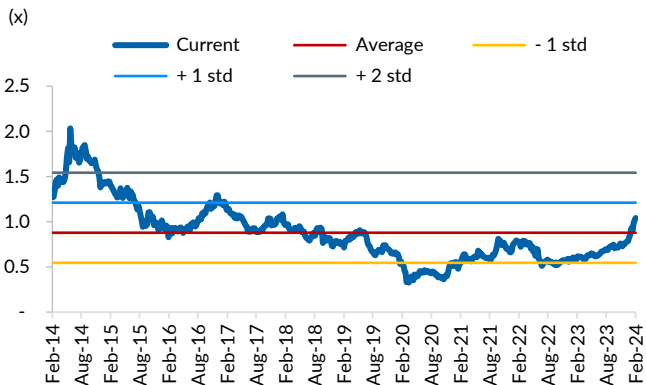
Source: Bloomberg, YES Sec

Exhibit 26: Oil India PER



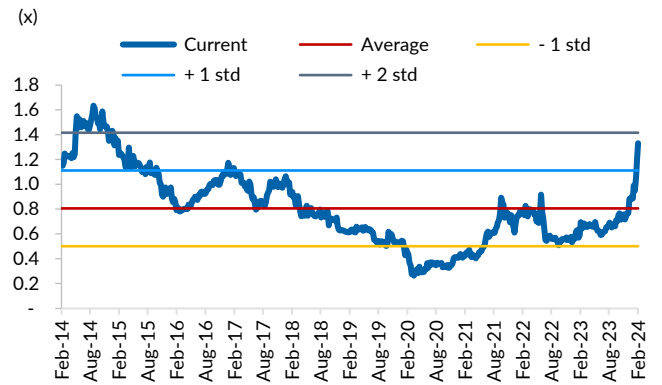
Source: Bloomberg, YES Sec

Exhibit 27: ONGC P/BV



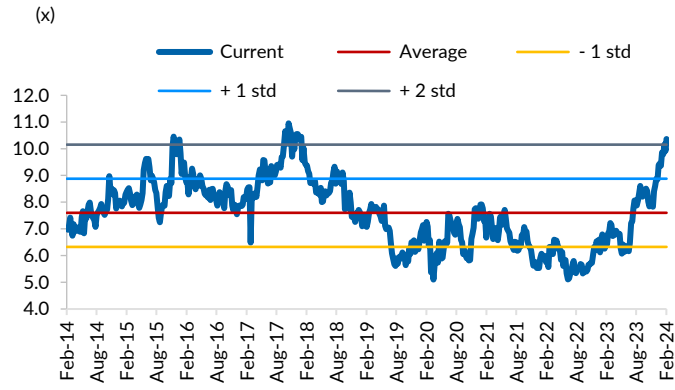
Source: Bloomberg, YES Sec

Exhibit 28: Oil India P/BV



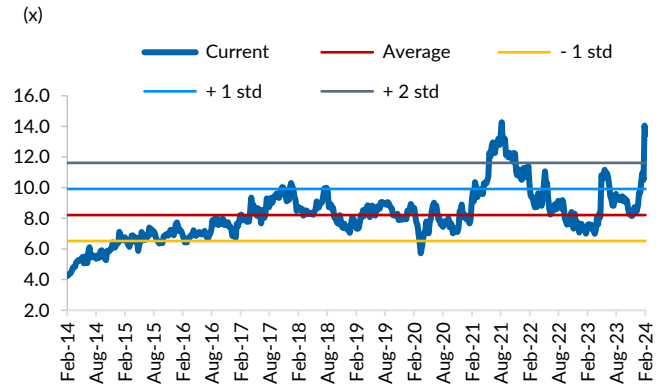
Source: Bloomberg, YES Sec

Exhibit 29: GAIL EV/EBITDA



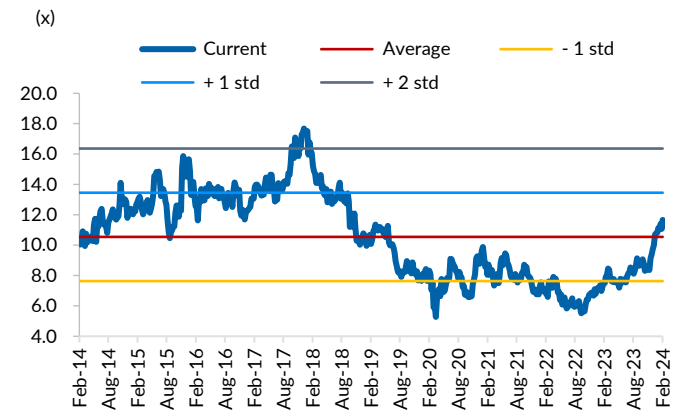
Source: Bloomberg, YES Sec

Exhibit 30: GSPL EV/EBITDA



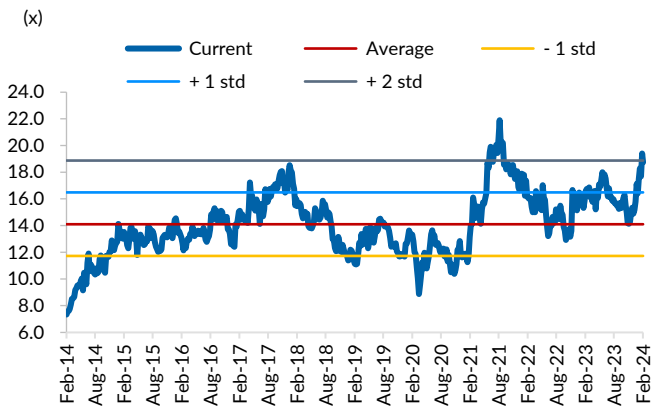
Source: Bloomberg, YES Sec

Exhibit 31: GAIL PER



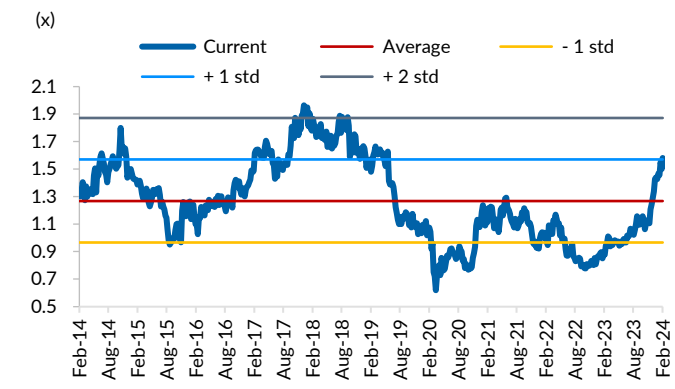
Source: Bloomberg, YES Sec

Exhibit 32: GSPL PER



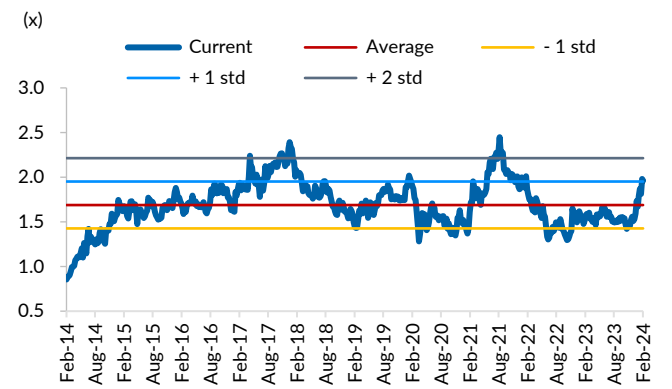
Source: Bloomberg, YES Sec

Exhibit 33: GAIL P/BV



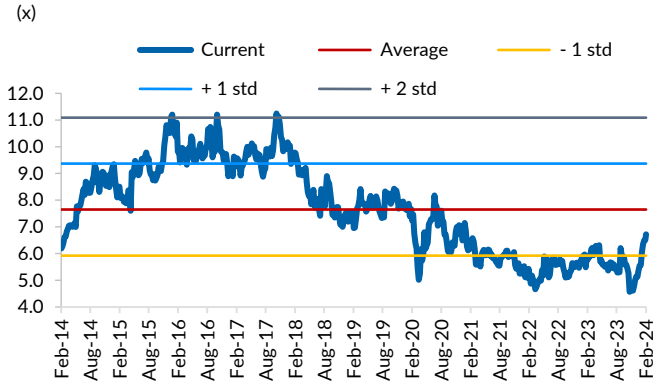
Source: Bloomberg, YES Sec

Exhibit 34: GSPL P/BV



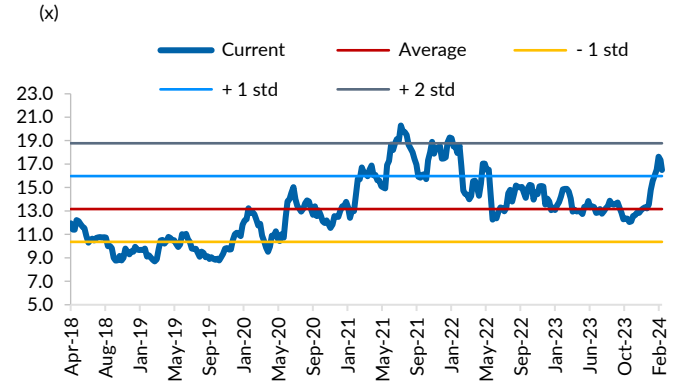
Source: Bloomberg, YES Sec

Exhibit 35: PLNG EV/EBITDA



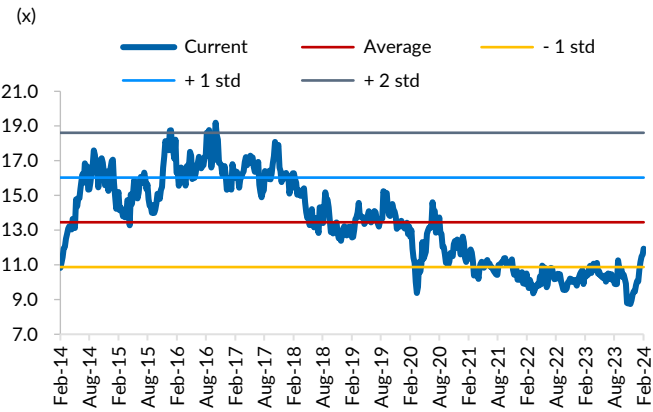
Source: Bloomberg, YES Sec

Exhibit 36: GUJGA EV/EBITDA



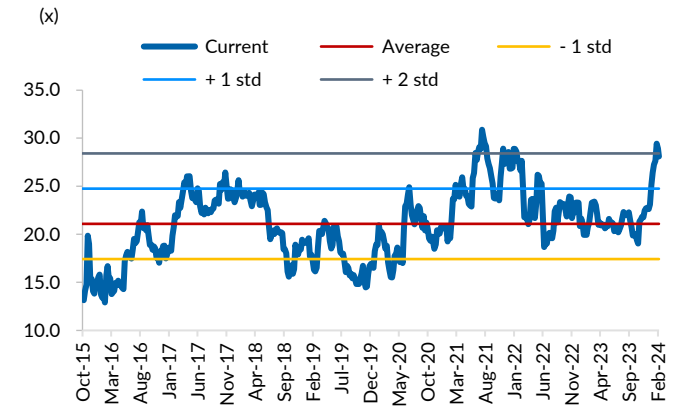
Source: Bloomberg, YES Sec

Exhibit 37: PLNG PER



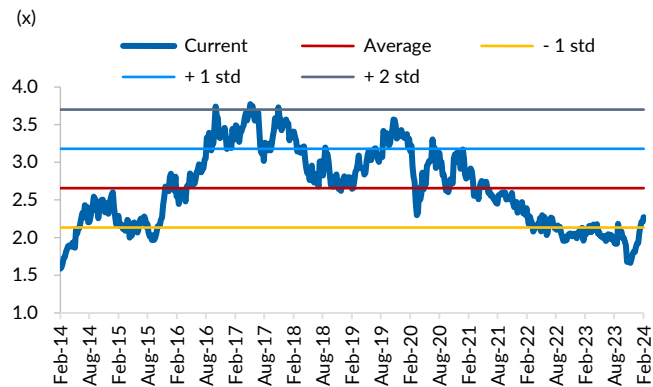
Source: Bloomberg, YES Sec

Exhibit 38: GUJGA PER



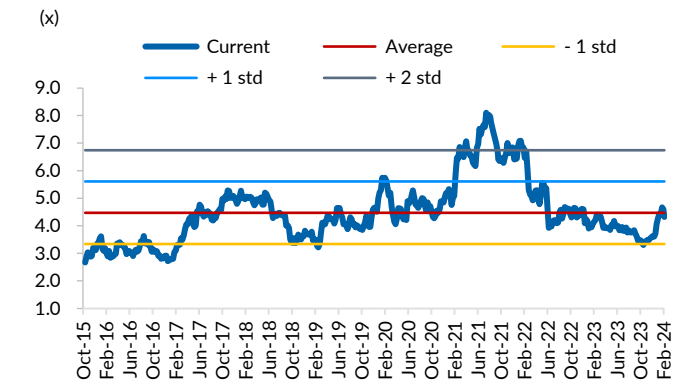
Source: Bloomberg, YES Sec

Exhibit 39: PLNG P/BV



Source: Bloomberg, YES Sec

Exhibit 40: GUJGA P/BV



Source: Bloomberg, YES Sec

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ADD: Upside between 10% to 20% over 12 months

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